

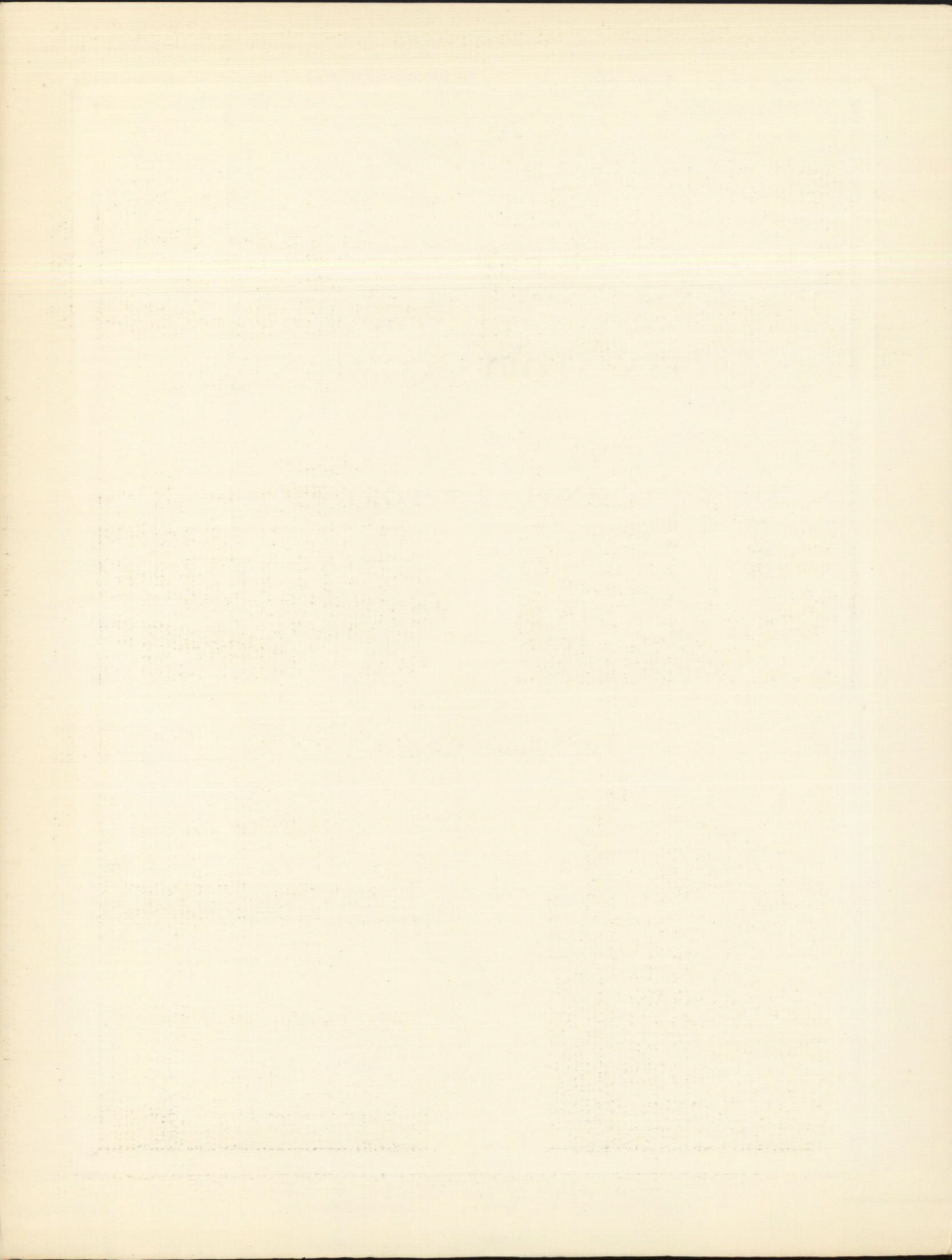
CITY STORES COMPANY

ANNUAL REPORT



JANUARY 31, 1951

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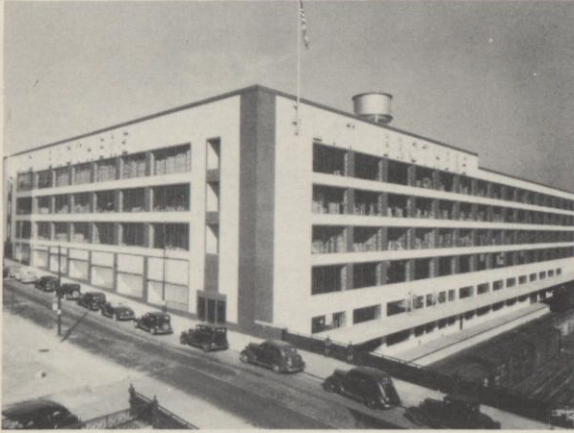
LIT BROTHERS



PHILADELPHIA, PA.



69th STREET, UPPER DARBY, PA.



LIT BROTHERS WAREHOUSE, PHILA.

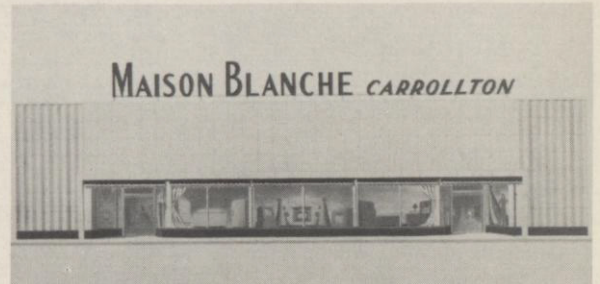


SWERN & COMPANY, TRENTON, N. J.

MAISON BLANCHE COMPANY



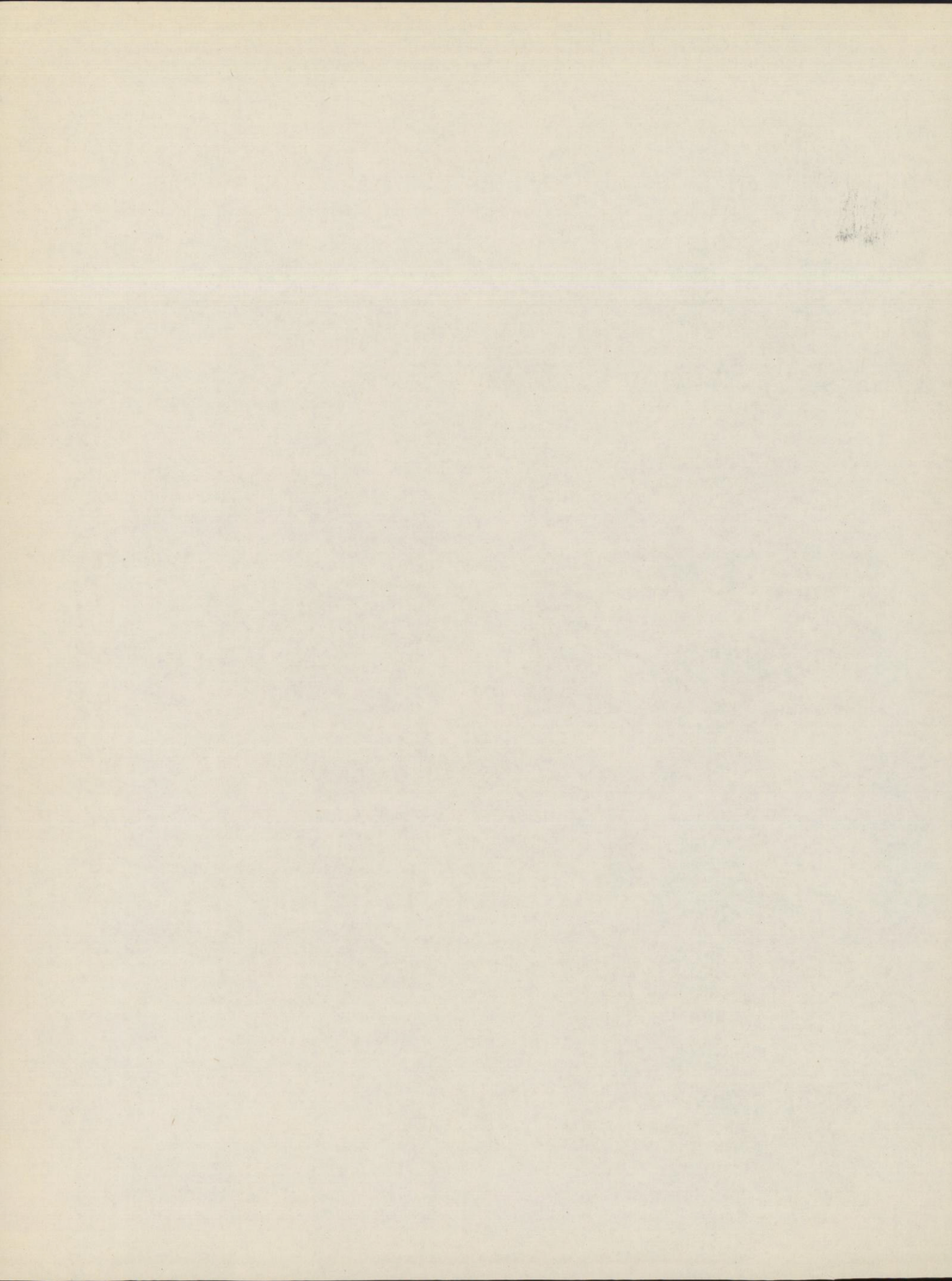
NEW ORLEANS, LOUISIANA

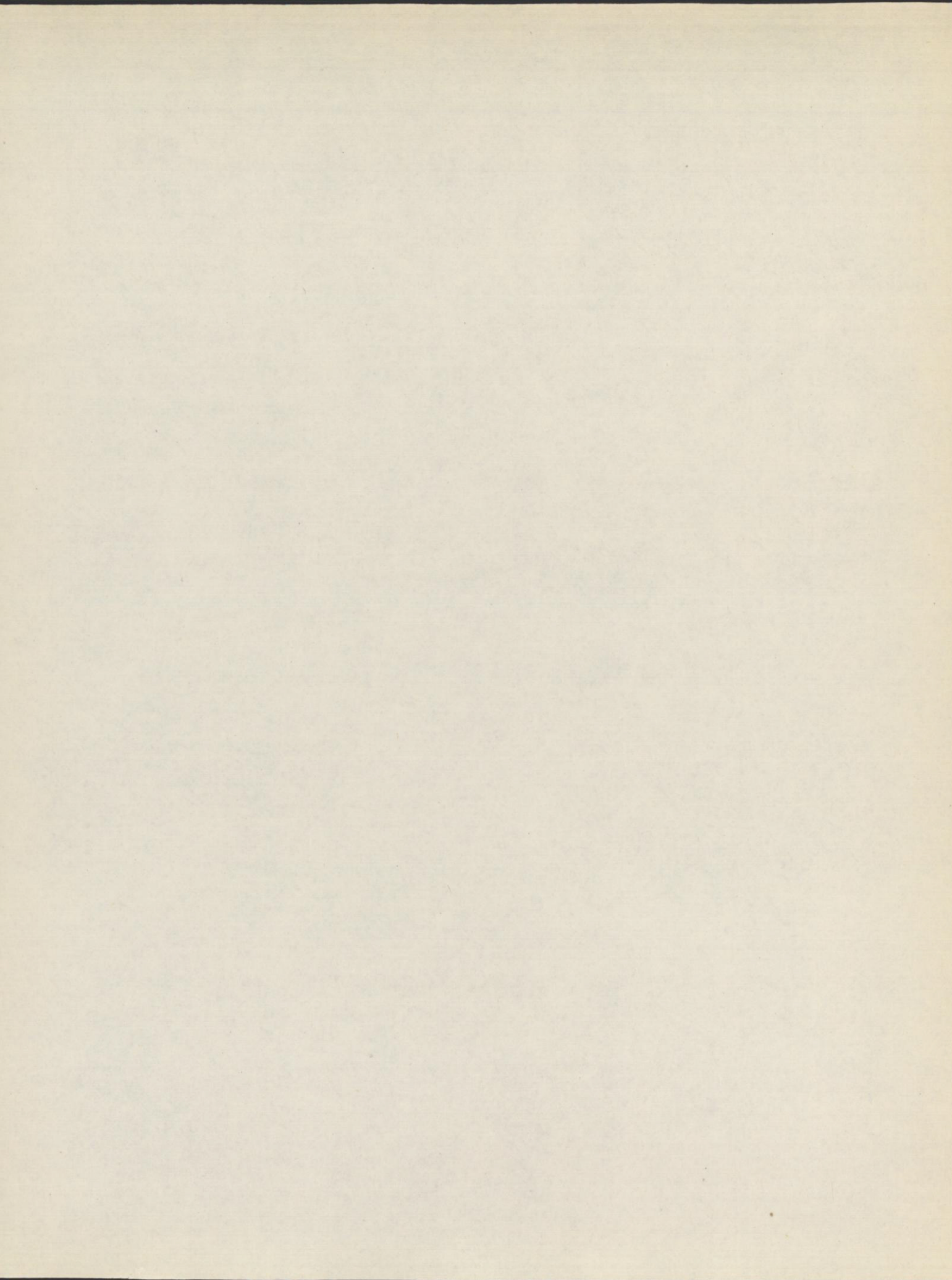


CARROLLTON, NEW ORLEANS



GENTILLY, NEW ORLEANS







LOVEMAN, JOSEPH & LOEB

BIRMINGHAM, ALA.



WAREHOUSE

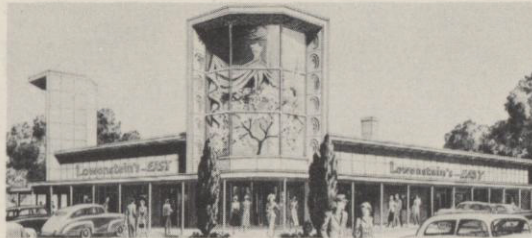
HOME FURNISHINGS STORE

SECOND AVENUE



LOWENSTEIN'S "EAST," MEMPHIS

B. LOWENSTEIN & BROS., INC.



MEMPHIS, TENN.



LOWENSTEIN'S HOME SERVICE, INC.

MEMPHIS

R. H. WHITE CORPORATION

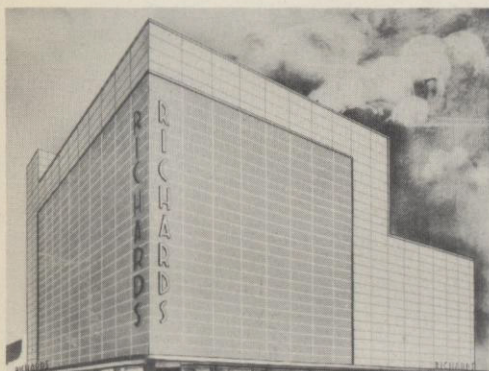


BOSTON, MASS.

WAREHOUSE
CAMBRIDGE, MASS.



WORCESTER, MASS.



RICHARD STORE COMPANY
MIAMI, FLA.



KAUFMAN-STRAUS COMPANY, INC.
LOUISVILLE, KY.



WISE, SMITH & COMPANY, INC.
HARTFORD, CONN.

OPPENHEIM, COLLINS & CO., INC.



PHILADELPHIA, PA.



GERMANTOWN, PHILA.,



NEW YORK, 34th STREET



HUNTINGTON, L. I.



MORRISTOWN, N. J.



EAST ORANGE, N. J.



HACKENSACK, N. J.



BROOKLYN, N. Y.



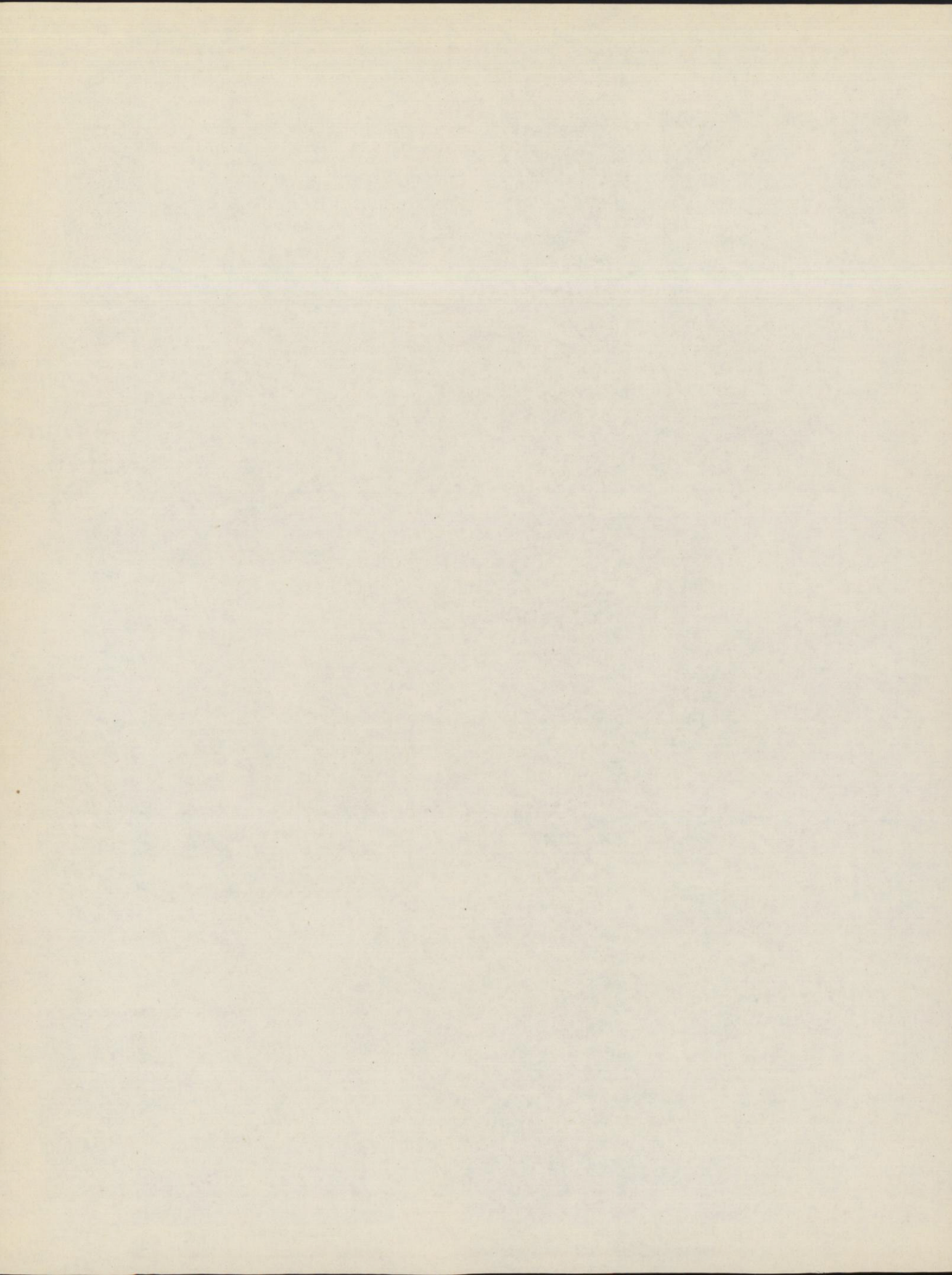
GARDEN CITY, L. I.

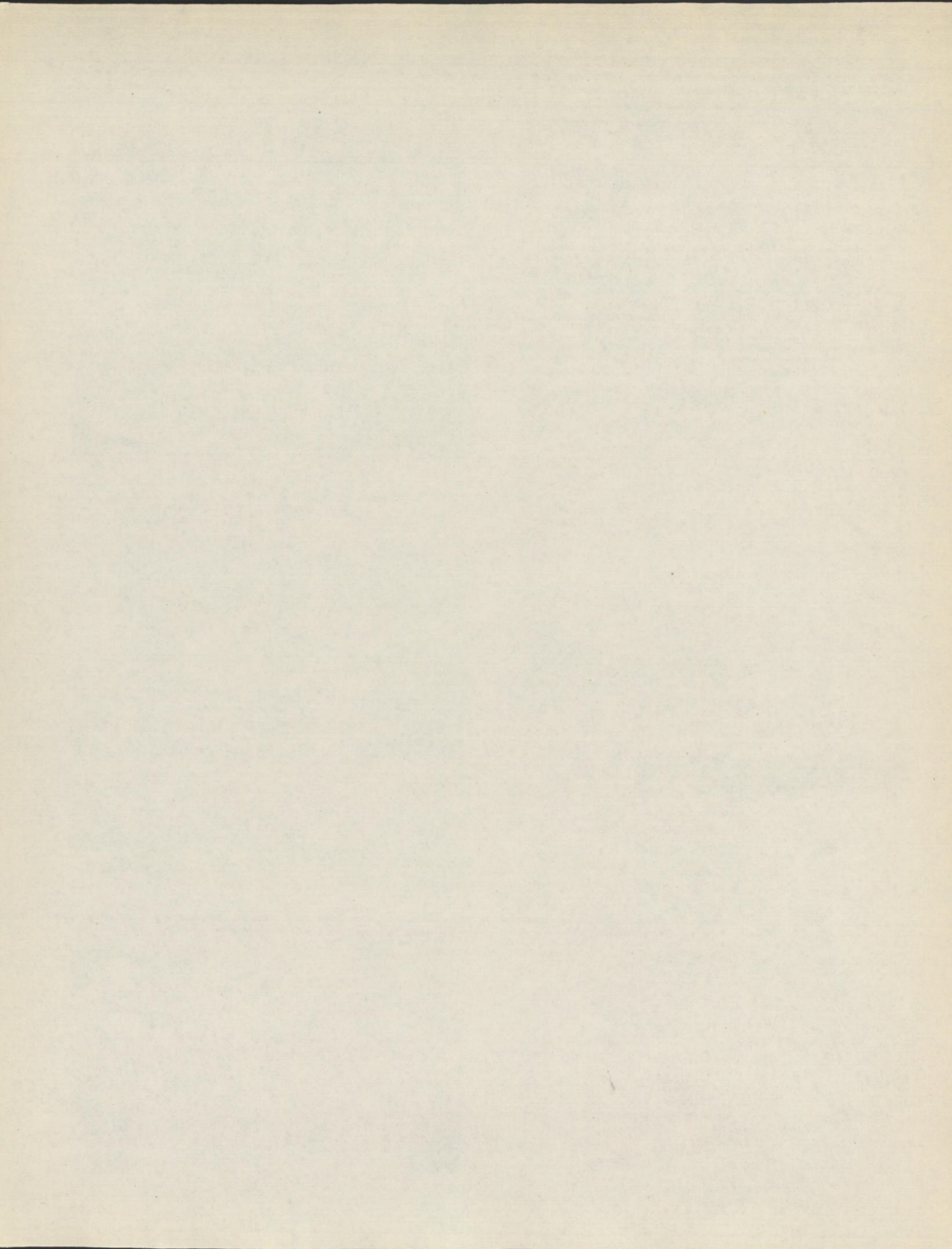


BUFFALO, N. Y.



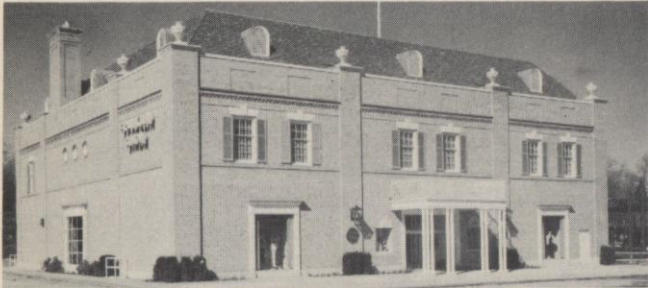
WHITE PLAINS, N. Y.







FIFTH AVENUE, N. Y.



NEWTON, MASS.



ATLANTA, GA.

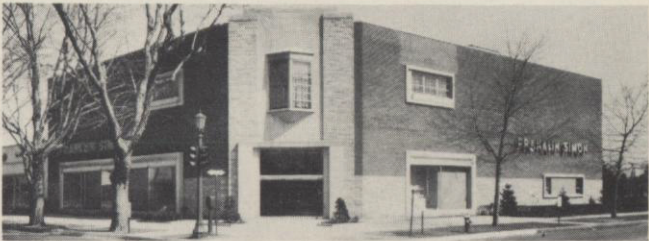


BRIDGEPORT, CONN.

FRANKLIN SIMON & CO. INC.



WASHINGTON, D. C.



GARDEN CITY, L. I.



SHAKER HEIGHTS, CLEVELAND, OHIO



EAST ORANGE, N. J.



WESTPORT, CONN.



GREENWICH, CONN.

CITY STORES COMPANY AND SUBSIDIARIES
ANNUAL REPORT
YEAR ENDED JANUARY 31, 1951

TABLE OF CONTENTS

	PAGE
List of Stores:	
Location	2
Date Established	2
Officers and Directors	3
Highlights of Year's Operations	4
President's Letter:	
Sales Earnings and Dividends	5
Financial Matters	5
Expansion	5
Changes in Financial Structure	6
Personnel Changes	7
Conclusion	7
Financial Statements:	
Consolidated Balance Sheet	8-9
Consolidated Surplus	10
Comparative Statement of Consolidated Profit and Loss.....	11
Combined Balance Sheet — Real Estate Subsidiaries	12
Notes to Consolidated Financial Statements	13, 14, 15
Auditors' Certificate	16

CITY STORES COMPANY

207 WEST NINTH STREET
WILMINGTON 43, DELAWARE

LIT BROTHERS

Philadelphia, Pennsylvania

Established 1891

Branch

Lit 69th Street

Upper Darby, Pennsylvania 1949

SWERN & COMPANY

Trenton, New Jersey

Established 1885

MAISON BLANCHE

New Orleans, Louisiana

Established 1887

Branches

Carrollton, New Orleans, La. 1942

Gentilly, New Orleans, La. 1947

LOVEMAN, JOSEPH & LOEB

Birmingham, Alabama

Established 1887

Loveman, Joseph & Loeb

Home Furnishings Store

Birmingham, Alabama 1948

OPPENHEIM, COLLINS & CO., INC.

New York, N. Y.	1901
Philadelphia, Pa.	1903
Buffalo, N. Y.	1905
Brooklyn, N. Y.	1906
Garden City, L. I.	1938
White Plains, N. Y.	1941
East Orange, N. J.	1946
Morristown, N. J.	1947
Germantown, Phila.	1948
Hackensack, N. J.	1950
Huntington, L. I.	1951

B. LOWENSTEIN & BROS., INC.

Memphis, Tennessee

Established 1855

Branches

Lowenstein's Home Service, Inc.

Memphis, Tennessee 1944

Lowenstein's "East"

Memphis, Tennessee 1948

KAUFMAN-STRAUS COMPANY, INC.

Louisville, Kentucky

Established 1879

R. H. WHITE CORPORATION

Boston, Massachusetts

Established 1858

Branch

Worcester, Mass. 1951

RICHARD STORE COMPANY

Miami, Florida

Established 1896

WISE, SMITH & COMPANY, Incorporated

Hartford, Connecticut

Established 1889

FRANKLIN SIMON & CO. INC.

New York, N. Y.	1902
Greenwich, Conn.	1932
East Orange, N. J.	1940
Cleveland, Ohio	1941
Bridgeport, Conn.	1942
Garden City, L. I.	1946
Washington, D. C.	1948
Atlanta, Ga.	1948
Newton, Mass.	1950
Westport, Conn.	1951

CITY STORES COMPANY

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
SAUL COHN	<i>Vice Chairman of the Board</i>
HERBERT J. SCHWARTZ	<i>President</i>
DR. WILLIAM D. GORDON	<i>Exec. Vice President and Treas.</i>
JOHN B. KNOX	<i>Vice President</i>
GORDON K. GREENFIELD	<i>Vice President</i>
MILTON A. KAMSLER	<i>Secretary</i>
BENJAMIN SCHNECK	<i>Corporate Controller</i>

DIRECTORS

GUSTAVE G. AMSTERDAM
Philadelphia, Pa.
C. GORDON ANDERSON
Miami, Fla.
MURRY C. BECKER
New York, N. Y.
ALFRED BLASBAND
Philadelphia, Pa.
DAVID BORTIN
Philadelphia, Pa.
HAROLD W. BRIGHTMAN
Philadelphia, Pa.
J. J. CAPRANO
Philadelphia, Pa.
SAUL COHN
New York, N. Y.
ANTHONY G. FELIX
Philadelphia, Pa.
STANLEY FOLZ
Philadelphia, Pa.
DR. WILLIAM D. GORDON
Philadelphia, Pa.

AUDITORS
ERNST & ERNST
120 Broadway
New York, N. Y.

ALBERT M. GREENFIELD
Philadelphia, Pa.
GORDON K. GREENFIELD
New York, N. Y.
GEORGE H. JOHNSON
Philadelphia, Pa.
JOHN B. KNOX
Boston, Mass.
DANIEL O. MORTON
New York, N. Y.
ISIDORE NEWMAN, II
New Orleans, La.
MAX ROBB
Philadelphia, Pa.
HARRY W. SCHACTER
Louisville, Ky.
O. W. SCHANBACHER
Birmingham, Ala.
AARON R. SCHARFF
Memphis, Tenn.
HERBERT J. SCHWARTZ
New York, N. Y.

COUNSEL
SUNDHEIM, FOLZ, KAMSLER & GOODIS
1315 Walnut Street
Philadelphia, Pa.

TRANSFER AGENTS

PREFERRED STOCK—The Chase National Bank of the City of New York, 11 Broad Street,
New York, N. Y.
COMMON STOCK—Central Hanover Bank & Trust Co., 70 Broadway, New York, N. Y.

REGISTRARS

PREFERRED STOCK—Bank of the Manhattan Company, 40 Wall Street, New York, N. Y.
COMMON STOCK—The Chase National Bank of the City of New York, 11 Broad Street,
New York, N. Y.

HIGHLIGHTS

YEAR ENDED JANUARY 31, 1951

Total Net Sales	\$205,703,941
Net Earnings	4,751,135
Dividends Paid:	
Preferred Stock	8,550
Common Stock	2,192,155
Cash	7,445,643
Total Current Assets	75,272,534
Total Current Liabilities	28,216,214
Working Capital	47,056,320
Earned Surplus	26,151,334
Current Ratio	2.67

ANNUAL REPORT

YEAR ENDED JANUARY 31, 1951

April 27, 1951

To the Stockholders:

The past year has been noteworthy for your Company because of expansion of activities, integration of a number of its units and further financial progress, all of which are briefly discussed in this report.

Customary financial statements for the year are included, together with the report of our independent auditors, Messrs. Ernst & Ernst.

SALES, EARNINGS AND DIVIDENDS

Sales for the year aggregated \$205,703,941, compared with \$182,303,340 for the preceding year. These sales again are the largest in the history of your Company, and to a considerable extent reflect the upturn in business which occurred after the outbreak of the Korean war in June.

Earnings of your Company and subsidiaries after all charges but before minority interests, lifo adjustment and income taxes were \$12,309,099 compared with \$8,763,051 a year ago. In order to minimize the effect of inflation on earnings during periods of rising prices, and in conformity with the Company's long standing policy, your directors during the past year authorized the placing of additional stores on a selective lifo basis, so that all stores now account on the lifo or selective lifo plan. Lifo adjustments during the past year increased \$1,414,839 to a total of \$4,464,562, thereby reducing earnings to that extent. After provision for minority interests, lifo adjustments and income taxes, the net earnings of your Company amount to \$4,751,135 against \$4,581,293 for the preceding year.

The earnings for the past year include a special profit of \$2,171,180 realized by Lit Brothers, a subsidiary, on the sale of real estate, of which \$1,489,582 represents City Stores' proportion. In the preceding year a similar profit of \$559,553 was realized. Federal and state taxes on income required \$4,653,210, an increase of \$1,023,967 over the previous year.

As the result of these earnings and the Company's continued progress your directors deemed it appropriate, in the month of January, 1951, to increase the annual dividend rate on the common stock from \$1.20 to \$1.40 per share.

FINANCIAL MATTERS

Working capital at the close of the year, as reflected by the consolidated balance sheet, amounted to \$47,056,320, against \$37,529,494 at January 31, 1950.

Inventories at the year-end amounted to \$28,713,162 as compared with \$20,522,558 at the end of the preceding year. These larger inventories are attributable principally to higher prices, requirements arising from increased sales, expansion of selling areas in existing units and the addition of branch stores in other localities. Inventories are in satisfactory condition as to price, quality and aging.

Accounts receivable rose from \$32,097,513 to \$38,529,322 during the year. Reserves for these accounts aggregate \$2,015,947 at January 31, 1951.

Consolidated earned surplus as of January 31, 1951 amounted to \$26,151,334, an increase of \$2,696,887 over the corresponding figure a year ago.

EXPANSION

During the past fiscal year the Company continued its program of expansion and modernization, and a summary of the principal activities is given in the following:

Lit Brothers

The success of the 69th Street store of Lit Brothers in Upper Darby made it advantageous to add an additional floor to the building. This was completed in October, 1950. Since then, the volume of business in this store has materially increased.

Lit Brothers has acquired the site of the Camden Court House in the center of the business district of Camden, New Jersey, and unless prevented by building restrictions, proposes to erect in 1952 a modern department store with more than 100,000 square feet of selling space on three floors and a lower level. Camden County, with its adjoining counties of Burlington and Gloucester, has a total population in excess of 500,000 and is in the midst of a noteworthy development of business, public improvements and transportation facilities.

Swern & Company

New escalators were installed in the store of Swern & Company in Trenton. The rear building, which had been used for storage, has now been adapted for the sale of furniture and kindred lines. The industrial development of the United States Steel Company in the construction of its \$500,000,000 Fairless Plant at Morrisville, Pa., and the attraction to adjacent territories of allied industries promise a rapid growth of population, industry and business in the Trenton-Philadelphia area, from which Swern's in Trenton and Lit Brothers in Philadelphia should largely benefit.

Loveman, Joseph & Loeb

Plans were initiated and construction begun on a warehouse for Loveman, Joseph & Loeb in Birmingham, containing about 110,000 square feet. Its completion is expected about September 1, 1951.

Kaufman-Straus Company, Inc.

Work of expansion, modernization and refixturing of the Kaufman-Straus building in Louisville was completed in September, 1950. Escalators and new elevators have been installed. The area of the building was increased by approximately 33,000 square feet to 170,000 square feet. There has been a gratifying up-trend in sales of this company since the completion of this expansion.

Richard Store Company

Construction of an addition to the Richard Store Company building in Miami, to contain four stories of about 60,000 square feet, was commenced in 1950. The plans call for completion by October 1, 1951. Escalators will be installed to service both the new and the present buildings, and the exterior of the enlarged building will be of modern and uniform design, making the completed structure one of the most up-to-date stores in Miami. Upon completion, the Richard Store will contain a floor area of approximately 227,000 square feet.

Oppenheim, Collins & Co., Inc.

In September, 1950, a branch store of Oppenheim, Collins & Co., Inc. was opened in Hackensack, New Jersey with satisfactory results.

Plans have been completed and leases drawn for the erection of a store in Huntington, Long Island. This store should be ready for occupancy about October 1, 1951.

Franklin Simon & Co. Inc.

The construction of a branch store of Franklin Simon & Co. Inc. at Westport, Connecticut, a rapidly growing community, is now underway and will be completed shortly. It will have a floor area of about 12,000 square feet.

FINANCIAL STRUCTURE

Your directors have formulated the following plan which is being put into operation as deemed advisable:

1. To acquire the outstanding minority interests in subsidiaries of the Company;
2. To integrate the subsidiaries with the Company, thus changing its character from that of a holding company to that of an operating company;
3. To separate the operating assets from the real estate holdings by the formation of subsidiary real estate companies. The intent of this is to keep the investment in real estate separate from the operating companies in order that the operating companies' capital may be free for the principal function of merchandising. A separate combined balance sheet of the real estate companies is included in this report.

Pursuant to the plan as above outlined, the directors authorized the offer of common stock of City Stores Company to the common stockholders of Oppenheim, Collins & Co., Inc. and to the common and preferred stockholders of Franklin Simon & Co. Inc. As a result of this exchange offer, your Company now owns 94.7% of the common stock of Oppenheim, Collins & Co., Inc., 97.1% of the common stock and 49.2% of the preferred stock of Franklin Simon & Co. Inc.

The merger of Lit Brothers into City Stores Company became effective March 31, 1951. This in no way changes the management of Lit Brothers, which continues under the supervision of its former executives.

During the past year Maison Blanche and Loveman, Joseph & Loeb were both integrated into City Stores Company and are operating as before under the same management.

During the fiscal year ended January 31, 1951, the following changes in the capital structure were effected:

1. The Class A stock was reclassified into Common stock and was exchanged share for share. This Class A stock had priority rights over the common stock in liquidation and in dividends which were voluntarily waived by the stockholder. The Company has now only one class of common stock outstanding.

2. The authorized common stock was increased from 1,900,000 to 3,000,000 shares. As a result of the exchange of the Class A stock and the exchange for stocks of Oppenheim, Collins & Co., Inc., and Franklin Simon & Co. Inc., there were on January 31, 1951 issued and outstanding 1,866,025 shares of common stock. Additional shares of common stock have been reserved for the conversion of convertible preferred stock as provided in the Charter.

3. 150,000 shares of preferred stock were authorized, of which 60,000 shares of 4 $\frac{1}{4}$ % convertible stock were publicly sold on January 19, 1951, at par plus accrued dividends, through an underwriting group headed by Lehman Brothers and A. G. Becker & Co. Approximately 45,000 additional 4 $\frac{1}{4}$ % convertible shares are required for issuance to the former holders of Lit Brothers stock in consequence of the merger of Lit Brothers into City Stores Company.

PERSONNEL CHANGES

On May 1, 1950, Ralph M. Chipurnoi was elected president of the subsidiary, Wise, Smith & Company, Incorporated, in Hartford. Mr. Chipurnoi is an able merchant with years of experience in the department store field.

It is with deep regret that we record here the passing of Walter T. Grosscup, former Executive Vice President of Lit Brothers and of Joseph H. Loveman, Chairman of the Board of Directors of Loveman, Joseph & Loeb, the company which he served for many years as President.

CONCLUSION

The problems ahead of us because of dislocation of business conditions in our present semi-war economy require our utmost vigilance and care. We face the situation with confidence. Our stores are located in areas where the trend of population and income is steadily upwards, and our stores are well staffed.

In addition, the result of the above-outlined changes in the capital and financial structure of the Company should produce a stronger, sounder and more unified operation.

The employees of your Company have continued to serve the various divisions faithfully and energetically, and to them we owe our thanks for their cooperation which has been no small factor in the continued success of your Company.

HERBERT J. SCHWARTZ,
President.

ALBERT M. GREENFIELD,
Chairman of the Board.

**CITY STORES COMPANY AND
CONSOLIDATED BALANCE**

ASSETS

CURRENT ASSETS

Cash	\$ 7,445,643
Accounts receivable, customers and others (including \$13,485,691 of installment accounts), less \$2,015,947 allowances for doubtful	36,513,375
Merchandise inventories — Note A	28,713,162
Portion of mortgage receivable sold for cash on March 28, 1951	2,600,354
TOTAL CURRENT ASSETS	\$ 75,272,534

OTHER ASSETS

U. S. Government securities deposited as security under lease	\$ 177,297
Capital stock of parent company	53,800
Mortgages receivable, sundry investments less allowances, and other items.....	914,250
Refundable income and excess profits taxes of prior years—estimated.....	931,964
	<u>2,077,311</u>

INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED REAL ESTATE

SUBSIDIARIES — Note B.....	1,428,506
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PROPERTY AND EQUIPMENT — Note C

Land	\$ 3,736,618
Buildings, fixtures, equipment, etc.	25,524,208
Improvements to leased properties	5,910,662
Less allowances for depreciation and amortization	(11,799,151)
	<u>\$ 23,372,337</u>
Cash proceeds of note available only for construction of building	1,112,360
	<u>24,484,697</u>

GOOD WILL	2
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DEFERRED CHARGES

Supplies and prepaid items	\$ 1,563,605
Unamortized note, mortgage and leasehold expenses	254,520
Unapplied portion of advances to landlord toward construction costs to be offset against future additional percentage rentals	238,488
	<u>2,056,613</u>

\$105,319,663

CONSOLIDATED SUBSIDIARIES
SHEET, JANUARY 31, 1951

LIABILITIES

CURRENT LIABILITIES

Notes payable to banks	\$ 3,610,000
Current maturities on long-term debt	1,094,340
Accounts payable and accrued expenses (including \$143,751 to unconsolidated real estate subsidiaries)	16,741,905
Dividends payable	687,155
Federal and state taxes on income — estimated — Note D	5,228,390
Reserve for purchase discounts on merchandise in inventories	854,424
TOTAL CURRENT LIABILITIES	\$ 28,216,214

LONG-TERM DEBT (less installments due within one year)

City Stores Company:	
Promissory notes to banks — Note E (1)	\$ 2,920,000
Promissory demand notes to parent (subordinated to notes to banks)	2,419,392
Subsidiary Companies:	
Promissory notes to banks — Note E (2)	4,300,000
Mortgage payable	1,873,841
4% Sinking Fund Debentures (subordinated) — Note E (3)	5,700,000
	<u>17,213,233</u>

RESERVES

For redemption of trading stamps, for self-insurance, etc.	\$ 1,105,473
Federal income taxes on installment sales gross profit deferred for tax purposes — estimated	1,232,500
For restoration of leased properties	441,899
	<u>2,779,872</u>

DEFERRED INCOME

Unrealized gross profit on installment sales, and carrying charges	1,677,732
--	-----------

MINORITY INTERESTS

Preferred stock — at par — Note F	\$ 1,198,200
Common stock (\$435,358) and surplus applicable thereto	6,274,182
	<u>7,472,382</u>

CAPITAL STOCK AND SURPLUS

Capital Stock — Note G:	
Preferred Stock — \$100.00 par:	
Authorized 150,000 shares:	
4 1/4% Convertible Preferred Stock:	
Issued and outstanding 60,000 shares	\$ 6,000,000
Common Stock — \$5.00 par:	
3,000,000 shares authorized; 1,876,686 4/12 shares issued (including 10,661 4/12 shares in treasury); 1,866,025 shares outstanding	9,330,125
	<u>\$ 15,330,125</u>
Surplus:	
Capital surplus	6,478,771
Earned surplus — Notes A, D, and E:	
Unappropriated balance	25,059,688
Appropriated for contingencies	1,091,646
	<u>48,960,230</u>
Long-term leases and other commitments — Notes F, H, and I	

\$105,319,663

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES
STATEMENT OF CONSOLIDATED SURPLUS
YEAR ENDED JANUARY 31, 1951

CAPITAL SURPLUS

Balance at February 1, 1950		\$ 3,267,819
Add:		
Excess of average market price over par value of Company's Common Stock issued in exchange for preferred and common stocks acquired from minority shareholders in subsidiaries	\$ 2,431,562	
Excess of equity in net tangible assets applicable to preferred and common stocks of subsidiaries acquired from minority shareholders over cost thereof	558,922	
Cancellation of reserves for inventory shrinkage and mark-downs on books of subsidiaries prior to date of acquisition or prior to February 1, 1935	220,468	3,210,952
Balance at January 31, 1951		\$ 6,478,771

EARNED SURPLUS

Unappropriated:

Balance at February 1, 1950		\$ 22,567,319*
Add:		
Net profit for year	\$ 4,751,135	
Adjustment of inventory January 31, 1950, less applicable federal income taxes, resulting from adoption of last-in, first-out principle of inventory valuation — Note A	180,415	
Transfer from surplus appropriated for contingencies	76,258	
Adjustment of excess of cost of capital stock of a subsidiary, acquired in prior year, over equity in its tangible net assets at date of acquisition, less minority interest	12,349	
Excess of par value over cost of preferred stocks reacquired by subsidiaries during year, less minority interest	586	5,020,743
		\$ 27,588,062

Deduct:

Dividends declared:

On 4¼% Convertible Preferred Stock	\$ 8,550	
On Class A Stock 90¢ per share	360,000	
On Common Stock — \$1.25 per share	1,832,155	\$ 2,200,705

Underwriters' commissions and other expenses in connection with issuance and sale of 60,000 shares of 4¼% Convertible Preferred Stock

201,492

Excess of cost over par value of Company's Common Stock reacquired

114,681

Excess of cost over par value of preferred stock reacquired by subsidiary, less minority interest

11,496

2,528,374

Balance at January 31, 1951		\$ 25,059,688
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Appropriated for contingencies:

Balance at February 1, 1950	\$ 887,328
Add transfer of reserve for inventory shrinkage and mark-downs	280,576

\$ 1,167,904

Deduct reserve for contingencies of a subsidiary transferred to unappropriated surplus, less minority interest

76,258

Balance at January 31, 1951	\$ 1,091,646
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* Reflects elimination of earned surplus of \$49,107 attributable to subsidiary consolidated at January 31, 1950 but not consolidated at January 31, 1951. Note referred to appears on page 13.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES
COMPARATIVE STATEMENTS OF CONSOLIDATED PROFIT AND LOSS*
TWO YEARS ENDED JANUARY 31, 1951

	<u>Year ended January 31,</u>	
	<u>1951</u>	<u>1950</u>
INCOME		
Net sales — including leased departments	\$205,703,941	\$182,303,340
Other income:		
Carrying charges on customers' installment accounts	1,010,028	817,715
From properties not used in department store operations (exclusive of depreciation)	379,012	423,519
Interest and dividends (\$57,462 — 1951 and \$179,110 — 1950) and other sundry income	780,629	585,130
Profit (loss) on sale of securities — net	6,126	(123,250)
TOTAL INCOME	\$207,879,736	\$184,006,454
DEDUCTIONS		
Cost of goods sold and operating expenses (exclusive of depreciation and amortization) — Note A	195,798,995	172,674,816
Unrealized gross profit on installment sales	233,526	312,190
Depreciation and amortization	1,961,547	1,513,846
Interest	1,002,987	580,870
Sundry charges	159,601	146,564
	\$199,156,656	\$175,228,286
	\$ 8,723,080	\$ 8,778,168
Federal (including, for 1951, \$93,500 excess profits tax) and state taxes on income — estimated — Note D	4,653,210	3,629,243
	\$ 4,069,870	\$ 5,148,925
Amount applicable to preferred and common stocks of subsidiary companies not owned by City Stores Company	808,317	1,127,185
Profit, exclusive of special item	\$ 3,261,553	\$ 4,021,740
Gain on sale of real estate, less, for 1951, minority interest share (\$681,598)	1,489,582	559,553
NET PROFIT APPLICABLE TO CITY STORES COMPANY	\$ 4,751,135	\$ 4,581,293

* Includes operations of Franklin Simon & Co. Inc. from September 1, 1949.

Notes referred to appear on page 13.

COMBINED BALANCE SHEET
REAL ESTATE SUBSIDIARIES — NOTE B
(Wholly-owned by City Stores Company or Subsidiaries)

JANUARY 31, 1951

ASSETS

Cash		\$	7,747
Accounts receivable — miscellaneous	\$	21,374	
Due from a parent company		143,751	
			<u>165,125</u>
Land and buildings:			
Land — at cost	\$	2,959,318	
Buildings — at cost		7,155,740	
			<u>\$ 10,115,058</u>
Less allowances for depreciation		3,616,703	
			<u>\$ 6,498,355</u>
Construction in progress		20,737	
			<u>6,519,092</u>
Deferred charges:			
Unamortized mortgage expense	\$	19,817	
Prepaid expenses		14,888	
			<u>34,705</u>
			<u><u>\$ 6,726,669</u></u>

LIABILITIES

Accounts payable and accrued accounts	\$	20,141
Federal and state taxes on income — estimated — Note D		4,000
Loan and real estate mortgages (installments due within one year—\$162,738)		5,209,527
Deferred income		3,167
Equity of City Stores Company and subsidiaries, consisting of:		
Advances from parent companies	\$	1,138,160
Registered 6% — 20 Year Gold Debentures		795,000
Capital stocks		378,000
Capital surplus		29,646
Earned surplus (deficit) — Note D		(850,972)
		<u>1,489,834</u>
		<u><u>\$ 6,726,669</u></u>

This balance sheet includes the following subsidiaries:

Maison Blanche Corporation
Loveman, Joseph & Loeb, Inc.
Franklin Simon Realty Co.
Opco Realty Co. and wholly-owned subsidiary

Notes referred to appear on page 13.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JANUARY 31, 1951

NOTE A—Inventories of merchandise on hand and in transit were determined according to the retail inventory method and were priced, in substantial part, at cost on the last-in, first-out principle before allowances for discounts shown under Current Liabilities, and the balance, generally at the lower of cost or market. Those merchandising subsidiaries which had not heretofore applied the last-in, first-out principle, adopted its use selectively, with the result that consolidated net profit for the year, applicable to City Stores Company, as shown in the Comparative Statement of Consolidated Profit and Loss, is \$256,690 less than it would otherwise have been. That portion of the inventories priced on the last-in, first-out principle is stated at \$4,464,562 less than it would have been had it been priced at generally the lower of cost or market.

NOTE B—Investments in and advances to unconsolidated real estate subsidiaries consist of the following:

Securities:

Capital stock	\$406,346	
Debenture bonds	793,000	
		\$1,201,346

Advances		1,138,160
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\$2,339,506

Less allowance for loss		911,000
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\$1,428,506

The combined balance sheet of these subsidiaries, the properties of which were included in the consolidated balance sheet at January 31, 1950, appears on page 12.

On April 29, 1950, and on January 30, 1951, the Company acquired the net assets of Loveman, Joseph & Loeb, and Maison Blanche Company, respectively, both wholly-owned subsidiaries, pursuant to plans of complete liquidation of such subsidiaries. The Company continues to operate the businesses of both liquidated subsidiaries.

NOTE C—The amounts for property and equipment are stated at cost to subsidiary companies, paid either in cash or capital stock issued therefor at time of organization, except as to:

- (1) Kaufman-Straus Co., Inc. — at sound value at January 1936, determined by independent appraisers.
- (2) Kenville Realty Co. — at written-down amount for land.
- (3) Oppenheim, Collins & Co., Inc. — furniture and fixtures and improvements at July 31, 1934 at nominal amount of \$1.00.

Subsequent additions to properties are stated at cost.

NOTE D—Federal Income Taxes:

As to City Stores Company:

The Bureau of Internal Revenue has proposed additional assessments of income and excess profits taxes aggregating approximately \$433,783, exclusive of interest, against City Stores Company for its fiscal year ended January 31, 1945. While protest has been filed against the proposed assessment and the matter is still unsettled, counsel for the Company is of the opinion that the position of the Bureau is without merit. Income tax returns filed by the Company for the fiscal years ended January 31, 1946, 1947 and 1948 have been examined and any additional tax liabilities for those years have been paid prior to January 31, 1951.

Examination of the income tax return for the fiscal year ended January 31, 1949 resulted in a proposed additional assessment of tax for that year in the approximate amount of \$450,000, substantially all of which constitutes personal holding company surtax. The Company has agreed to immediate assessment of the tax, conditioned, however, upon the prior execution by a qualified official of the Treasury Department of a closing agreement for the year under Section 3760 of the Internal Revenue Code. Should such closing agreement be so executed, it is contemplated that the tax deficiency will be substantially extinguished by application thereagainst of a deficiency dividend credit.

As to subsidiaries:

During the fiscal year ended January 31, 1946, Lit Brothers sold its main store property and concurrently with the sale, leased the property back from the buyer. In its returns for that year, the company claimed a deductible loss in respect of such sale, which loss resulted in an aggregate reduction of income and excess profits taxes for the fiscal year 1946 and prior years of approximately \$4,475,000. The company has received a ruling from the Bureau of Internal Revenue, supplemented by a closing agreement restricted to certain points in such ruling, stating in effect that any loss sustained on the sale of the property is deductible for tax purposes but not undertaking to establish the amount of loss, which loss is now under review by the Bureau of Internal Revenue and is still subject to final determination.

As to City Stores Company and consolidated subsidiaries:

The amounts of the liability for federal and state taxes on income reflected in the accompanying financial statements include no specific provision for additional assessments of prior years' taxes against City Stores Company and/or its subsidiaries.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

JANUARY 31, 1951

NOTE E—(1) The loan agreement with banks holding \$3,250,000 principal amount of the Company's promissory notes, as last amended on August 31, 1950, requires payment of such principal amount in installments of \$330,000 on August 1, 1951, \$580,000 on August 1, 1952 and annually thereafter until August 1, 1955, and the balance of \$600,000 on August 1, 1956. However, the Company has the right to prepay the notes to banks in their entirety or in part. Among other things, the Company has covenanted:

- (a) To make prepayments on the notes from the proceeds of sales of fixed and capital assets (as defined) by the Company and certain subsidiaries, and from funds received by the Company as the result of the purchase or redemption by any subsidiary of its preferred stock owned by the Company.
- (b) To maintain (a) consolidated current assets of not less than two times consolidated current liabilities, and (b) consolidated net current assets of at least \$25,000,000.
- (c) That it will not declare or pay cash dividends on, or make any other distribution on any of its capital stock, which in the aggregate subsequent to February 2, 1949 exceeds the total of (a) 50% of the consolidated net profit (as defined) subsequent to January 31, 1949, and (b) the sum of \$2,000,000. At January 31, 1951, unappropriated consolidated earned surplus of approximately \$2,285,440 was not restricted by the provisions of the loan agreement (as amended). The banks have waived any and all provisions of the foregoing agreement which would operate to prevent payment of dividends by the Company on its Preferred Stock.

(2) As to promissory notes of Franklin Simon & Co. Inc. in the amount of \$2,200,000:

The preferred stock of Franklin Simon & Co. Inc. is redeemable at \$53.50 per share, plus unpaid accrued dividends. In the event of liquidation, the holders of shares of preferred stock are entitled to \$50.00 per share, plus unpaid accrued dividends, and in addition thereto, if such liquidation is voluntary, the amount of premium to which the holders would then be entitled upon redemption of the preferred stock.

Since May 1, 1947 and annually thereafter the Company has been required to set aside an amount equal to 10% of its net earnings available for dividends for its immediately preceding fiscal year, as a Sinking Fund for the retirement of the preferred stock. Up to January 31, 1951, the Company purchased 5,478 shares of preferred stock, at an aggregate cost of \$197,823.33, of which 4,478 shares have been surrendered to the Sinking Fund.

The cost of the 5,478 shares of preferred stock was \$18,614.68 in excess of the aggregate amount required to be set aside as at January 31, 1951 under the Sinking Fund provisions.

Under the provisions of the Certificate of Incorporation, no dividends other than dividends on the preferred stock may be paid, nor may Common Stock of the Company be purchased or redeemed, unless the net current assets of the Company of a date not more than 90 days preceding the date of the making of any such payment, will be at least \$2,000,000.00, and then only to the extent that profits earned subsequent to January 31, 1946 plus proceeds from sale of Common Stock since that date exceed dividends paid on the preferred stock and all stock junior thereto since January 31, 1946. As at January 31, 1951, there was no restriction on Earned Surplus under the foregoing limitations.

Under the terms of a credit agreement between the Company and certain banks, under which there was \$2,200,000.00 of borrowings outstanding as at January 31, 1951, the Company covenants that it will not pay or declare any dividend on any of its outstanding capital stock or purchase, acquire, redeem or retire any such stock except that the Company may:

1. Pay current dividends on the preferred stock.
2. Purchase, redeem or otherwise acquire preferred stock in order to satisfy the existing Sinking Fund requirements applicable thereto.
3. Pay cash dividends on its Common Stock and purchase, redeem or otherwise acquire the preferred stock in any one year in an amount which, together with payments under (1) and (2) above, shall not exceed one-half of the net earnings of the Company for the preceding fiscal year.

Under the foregoing provisions of the credit agreement, none of the Company's resources are available as at January 31, 1951 to pay cash dividends on the Company's Common Stock or to purchase, redeem or otherwise acquire preferred stock in excess of current Sinking Fund requirements. The Company also covenants that it will maintain the net current assets of not less than \$2,700,000 plus an amount equal to 40% of the principal amount of the notes then outstanding under the credit agreement.

- (3) The sinking fund provisions of the indenture covering the issue and sale during the year by Lit Brothers of 4% Sinking Fund Debentures (subordinated) in the total principal amount of \$6,000,000 require that that company retire on or before the last day of April in each year beginning in the year 1951, \$300,000 in principal amount of such Debentures.

NOTE F—Preferred stock of subsidiary companies held by the public comprises:

Franklin Simon & Co. Inc.:

22,600 shares of 4½% Cumulative Convertible Preferred Stock, par value \$50 per share (See Note E (2)).

Kaufman-Straus Company, Inc.:

682 shares of Preferred Stock, 5% Cumulative, par value \$100 per share.

During the year, the Company acquired 30,675 shares of the common stock and 21,922 shares of the preferred stock of Franklin Simon & Co. Inc., and 85,006 shares of Oppenheim, Collins & Co., Inc. common stock, all in exchange for 186,644 shares of the Company's own Common Stock. A small additional number of common shares of both companies were purchased for cash.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

JANUARY 31, 1951

Under the terms of an Executive Employees' Stock Option Plan, certain key employees and executives of Franklin Simon & Co. Inc. have been granted options to purchase, while remaining in the employ of the Company, an aggregate of 18,000 shares of the Common Stock of the Company at \$12.00 per share.

The options expire on January 31, 1954 unless the employment of these employees and executives is terminated sooner. One key employee for whom 1,500 shares were reserved under this plan resigned on February 15, 1950, thus reducing the aggregate number of shares subject to options to 16,500 shares.

Pursuant to a certain plan of merger approved by the shareholders of both City Stores Company and Lit Brothers subsequent to January 31, 1951, Lit Brothers was merged into City Stores Company as of March 31, 1951. The plan of merger provides for the issuance by City Stores Company of 1 share of its 4¼% Convertible Preferred Stock, par value \$100 per share, for each 7 shares of the common stock of Lit Brothers owned by minority shareholders. If all the minority shareholders of Lit Brothers were to accept the offer of exchange, 44,809 shares of the Company's Convertible Preferred Stock would be required to be issued. As of April 20, 1951, the holders of approximately 91% of the minority shares of Lit Brothers common stock have acquiesced to the plan of merger.

NOTE G—In December 1950, the Certificate of Incorporation of the Company was amended to increase the authorized Common Stock, \$5 par value, of the Company from 1,900,000 shares to 3,000,000 shares and to authorize a new class of Preferred Stock, par value \$100 per share, issuable in series, in the aggregate number of 150,000 shares. At the same time, 400,000 shares of the Company's Common Stock were issued in exchange for an equal number of shares of Class A Stock and the latter class of stock was eliminated from the Company's capital structure.

In January, 1951, the Company sold 60,000 shares of its newly authorized 4¼% Convertible Preferred Stock having a par value of \$100 per share, the net cash proceeds from which aggregated approximately \$5,798,500. Such net proceeds have been applied principally to the reduction of current indebtedness to banks of the Company's wholly-owned operating subsidiaries. The 4¼% Convertible Preferred Stock is convertible on or before February 1, 1966 into shares of Common Stock of the Company on the basis of specified Common share valuations.

Beginning May 1, 1953, the 4¼% Convertible Preferred Stock is entitled to the benefit of a Sinking Fund sufficient to retire annually the greater of (1) 2% of the greatest number of shares at any time theretofore outstanding less shares theretofore converted into Common Stock, or (2) that number of shares obtained by dividing an amount equal to 5% of consolidated net earnings of the Company and its restricted subsidiaries (as defined) for the preceding fiscal year (after taxes and after dividends on the Preferred Stock) by \$100. In addition to the foregoing, and among other things, the provisions of the Convertible Preferred Stock issue contain certain restrictions and limitations with respect to funded debt, issuance of additional shares of Preferred Stock, authorization of mergers or consolidations, etc.

Since January 31, 1951, the Company reacquired 5,020 shares of its 4¼% Convertible Preferred Stock at an aggregate cost of approximately \$502,450.00.

NOTE H—At January 31, 1951, the Company and its subsidiaries had 51 leases on real estate properties (exclusive of inter-company leases) with terms expiring more than three years from that date. The aggregate minimum annual rental under such leases amounted to approximately \$2,187,258, plus, in certain instances, charges for taxes and insurance, and in the case of 21 leases additional rental based on a percentage of sales over a fixed amount.

NOTE I—Reference is made to the President's letter in the Annual Report to Stockholders of City Stores Company regarding proposed expenditures during the next year for new store buildings, fixtures, and equipment.

ERNST & ERNST
120 BROADWAY
NEW YORK

BOARD OF DIRECTORS,
CITY STORES COMPANY,
WILMINGTON, DELAWARE.

We have examined the consolidated balance sheet of City Stores Company and consolidated subsidiaries as of January 31, 1951, and the related statements of consolidated profit and loss and surplus for the fiscal year then ended. The consolidated financial statements include the assets and liabilities, and results of operations of Oppenheim, Collins & Co., Inc. and certain subsidiaries and Franklin Simon & Co., Inc., as at, or for the year ended, January 31, 1951, as reported by other independent accountants. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records of the companies and such other auditing procedures as we considered necessary in the circumstances, except in respect of the two companies mentioned above.

In our opinion, based upon our examination and upon the reports of other independent accountants as to the financial statements of the two subsidiaries hereinbefore mentioned, the accompanying balance sheet and statements of profit and loss and surplus present fairly the consolidated financial position of City Stores Company and consolidated subsidiaries at January 31, 1951, and the consolidated results of operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change (which we approve) in the pricing of inventories as explained in Note A of the notes to financial statements have been applied on a basis consistent with that of the preceding year.

ERNST & ERNST

New York, N. Y.
April 23, 1951.

REPORT OF THE

COMMISSIONERS OF THE

LAND OFFICE

FOR THE YEAR

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